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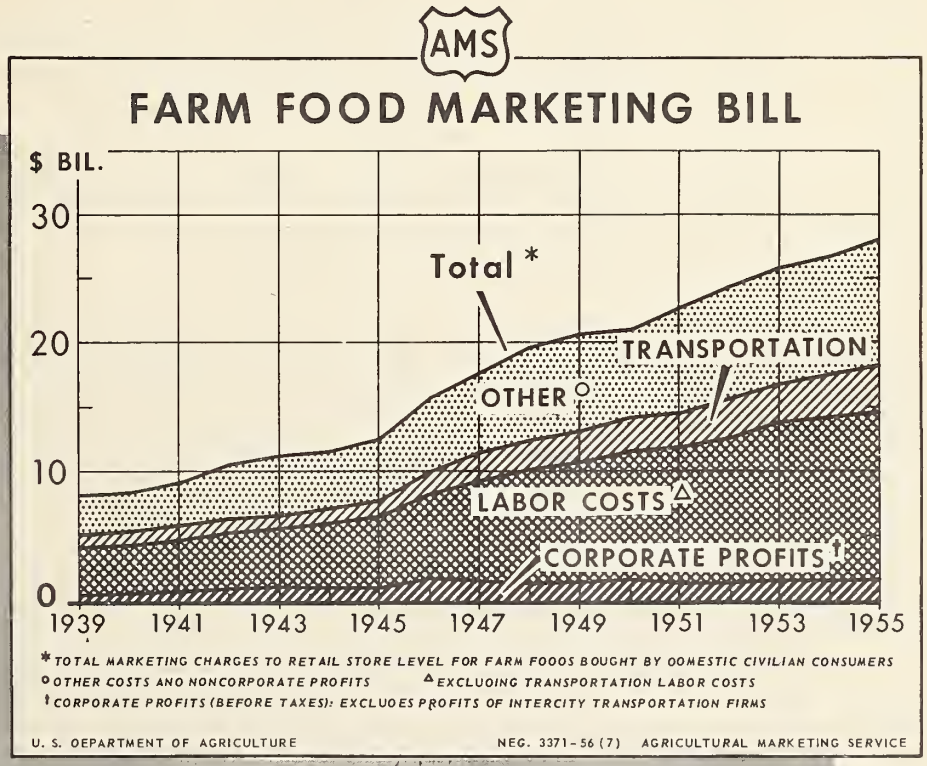
Trends in CORPORATE PROFITS IN MARKETING FARM FOOD PRODUCTS



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UNITED STATES DEPARTMENT OF AGRICULTURE
AGRICULTURAL MARKETING SERVICE
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TRENDS IN CORPORATE PROFITS IN MARKETING FARM FOOD PRODUCTS

Prices received by farmers, which have been falling steadily during the last several years, have not been reflected fully in lower retail food prices. Some of the many elements that influenced this price spread, or marketing margin, are costs of labor, transportation, packaging materials, containers, fuel, equipment, rents, taxes, and profits. Among these, profits have been singled out for criticism more often than most others.

In this article we examine recent trends in profits of food marketing corporations and compare them with other elements in the marketing bill. Primary emphasis is placed on estimating total corporate profits as a component of the total spread between farm and retail prices of food products. Corporate profits are, therefore, related primarily to sales dollar rather than to invested capital. But in the economic sense, ratio of profits to sales is not as important a measure of profitability as return on investment. The latter ratio measures the earning power of that part of the total investment in which the stockholder has an interest.

Our estimates of corporate profits are based primarily on data published by the Internal Revenue Service in "Statistics of Income." 1/ The concept of profits as used here, therefore, is that used by corporations in reporting to the Internal Revenue Service.

Corporate profits (before taxes) from the marketing of farm-produced food products are now more than four times as large as in 1939 (table 4). Since World War II, profits have fluctuated rather widely. In 1955, they represented nearly 6 percent of the marketing bill. Corporate profits after taxes have not increased as much as profits before taxes, but generally they have been more stable. Profits after taxes in 1955 were about 3 percent of the marketing bill. 2/

Corporate Profits as a Part of the Marketing Bill and Retail Cost

Corporate profits (before taxes) in 1955, as previously indicated, were about 6 percent of the total marketing bill for farm food products, including those handled by both corporate and noncorporate firms. (If noncorporate firms had been included, the proportion represented by profits would have been somewhat larger.) The part of the marketing bill represented by corporate profits before taxes has ranged from less than 5 percent before World War II to a peak of almost 11 percent in 1946. In the years following World War II, the profits share has ranged from 6 to 8 percent.

1/ For a description of the way in which estimates of these corporate profits were derived, see p. 23.

2/ The marketing bill is the difference between the cost of farm food products sold to civilian consumers in the United States valued at retail-store prices and the payment received by farmers for the equivalent farm products.

Table 4.- Corporate profits, labor, transportation, and other costs for marketing farm food products, United States, 1939-55

Year	Corporate profits 1/		Labor 2/	Transportation (including labor)	Other 3/	Total marketing bill
	Before taxes	After taxes				
	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars
1939	0.4	0.3	3.7	1.0	3.1	8.2
1940	.4	.3	3.9	1.0	3.2	8.5
1941	.6	.4	4.1	1.2	3.3	9.2
1942	.9	.4	4.5	1.0	4.1	10.5
1943	1.0	.5	4.6	1.0	4.5	11.1
1944	1.0	.4	5.0	1.1	4.3	11.4
1945	1.0	.5	5.5	1.3	4.7	12.5
1946	1.7	1.0	6.7	1.6	5.6	15.6
1947	1.5	.9	7.9	2.0	6.3	17.7
1948	1.2	.7	8.9	2.2	7.4	19.7
1949	1.3	.8	9.4	2.4	7.6	20.7
1947-49 av.	1.3	.8	8.7	2.2	7.1	19.4
1950	1.6	.9	9.9	2.6	6.9	21.0
1951	1.3	.6	10.6	2.6	8.2	22.7
1952	1.3	.6	11.4	3.0	8.7	24.4
1953	1.6	.7	12.2	3.0	9.1	25.9
1954	1.5	.7	12.7	3.3	9.3	26.8
1955 4/ ...	1.6	.8	13.1	3.6	9.7	28.0

1/ Total corporate profits are those received from the marketing of farm produced and domestically consumed food products by corporate establishments only and do not include those of nonincorporated firms. These profits do not include those of firms engaged in intercity transportation.

2/ Relates only to food sold to civilian consumers and not to that sold to the Armed Forces or exported. The cost of labor in restaurants and other eating places is not included but the series includes the estimated cost of additional retail-store labor that would be required to handle in retail stores the food sold in eating places. These adjustments are made because the food served in these places is valued at retail-store prices when it is included in the retail cost from which the marketing bill is derived. The cost of labor employed in intercity transportation is not included because payments made for transportation also are compared with the total marketing bill.

3/ Includes other costs and unincorporated profits.

4/ Preliminary.

As a proportion of the marketing bill, profits after taxes ranged from about 4 percent before World War II to a high of almost 7 percent in 1946. Since 1946 the profits share has varied between 2 and 4 percent (after taxes). In 1955 it was about 3 percent.

As a proportion of the total retail cost 3/ of all farm foods sold to civilian consumers, profits (before taxes) earned by corporations are currently slightly more than 3 percent. This is about the same proportion as in the years immediately preceding World War II. This proportion rose to more than 5 percent in 1946, dropped to less than 4 percent in the years 1947 to 1949, and rose again to more than 4 percent in 1950 with the outbreak of the Korean War. It has averaged slightly more than 3 percent in every year since 1950 except 1952.

As a percentage of their sales, profits (before taxes) of corporations from marketing farm foods averaged 2.4 percent in 1955 or about the same as in the years preceding World War II. 4/ The highest rate — 4.7 percent — occurred in 1946. In recent years, profits (before taxes) have been slightly more than 2 percent of sales. Because of the general rise in prices, constant or even slightly lower profits per dollar of sales would have resulted in an upward trend in profits per unit of product during the last 25 years.

Corporate profits (after taxes) as a percentage of sales were 1.2 percent in 1955. This was only about half those of 1939. The lower ratio of profits (after taxes) in recent years can be attributed to the larger proportion of profits taken by Federal income and excess profits taxes.

Lack of competitive pressure may permit marketing agencies, like other business firms, to incur heavy administrative costs, including large bonuses to management, as part of their expenses before calculating profits that are a residual factor. When this occurs, low profits may be a reflection of managerial policy rather than an indication of the low earning capacity of invested capital. Profit rates per dollar of sales may be low but total profits to a firm in relation to invested capital may still be rather favorable. Generally, profits as a percentage of stockholders' equity are higher than profits per dollar of sales.

Noncorporate Profits

According to estimates of the United States Department of Commerce, profits of all noncorporate manufacturers of food and kindred products totaled 215 million dollars in 1949 or about 13 percent of total profits

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3/ The retail cost estimates represent the cost at retail-store prices of all domestic farm foods that were both sold by farmers and bought by civilian consumers in this country. Farm food products sold in the form of meals are included but they are valued at what the food would have cost in retail stores.

4/ These sales include those of processing, wholesaling, and retailing corporations valued at cost to first buyer.

(before taxes) of both corporate and noncorporate food and kindred products manufacturers. Noncorporate profits came to 387 million dollars or about 21 percent of the total in 1945 and to 88 million dollars or about 14 percent in 1939. The varying proportion of total profits accounted for by noncorporate food processors over the years does not suggest a definite trend. But it is unlikely that the high proportion of profits accounted for by noncorporate food firms during World War II will be regained in future years. Profits of noncorporate food marketing firms have been published for 1929, 1939, 1945, and 1949.

The Department of Commerce publishes estimates of profits for the noncorporate wholesale and retail trade groups on a continuing basis, but profits of food firms are not published separately. In recent years, the noncorporate wholesale and retail trade groups combined accounted for more than 12 billion dollars or about 70 percent of the profits earned by all wholesalers and retailers. Noncorporate food wholesalers and retailers, however, probably account for a somewhat smaller proportion of the profits received by all food wholesalers and retailers. Noncorporate retail food store companies accounted for about 61 percent of the sales of all retail food stores, according to data published in the 1948 Census of Business. Independent stores (those with fewer than 11 stores under one ownership) include most of the noncorporate stores. In 1948 they had 66 percent of the total sales of all grocery stores. By 1955 this proportion had decreased to 62 percent.

The relative importance of noncorporate food wholesalers is also suggested from sales data published in the 1948 census. Sales of farm-produced food by noncorporate wholesalers were estimated at about 30 percent of the sales of farm foods by all wholesalers in that year.

Because of inadequate data, profits of noncorporate food marketing firms were not estimated by the Agricultural Marketing Service. For many noncorporate businesses, however, net receipts of the firm are largely a return for the labor of proprietors and family workers who do not draw stated wages or salaries. The estimates of labor costs in marketing food products (table 4) include an allowance for the labor of proprietors and family workers.

Trend in Corporate Profits

Before Taxes

Total profits (before taxes) of corporations from marketing farm-produced food products sold to civilian consumers in the United States advanced most rapidly during the early years of World War II. From 1940 to 1943, they more than doubled, rising from 0.4 billion dollars to 1.0 billion dollars. Profits were stable during the remainder of the war years but shot up drastically to 1.7 billion dollars with the removal of price ceilings in 1946. Increases in all prices — retailer, wholesaler, and manufacturer — and the accompanying increase in the value of inventories were major causes for this high level of profits. During the

immediate postwar period, firms were able to sell goods, bought before the price level started up, at higher prices than they brought before the rise. Because of lag between the time that goods are bought and sold, marketing firms tend to make increased profits when prices are rising and to take reduced profits when prices are falling. Profits declined sharply following 1946 and reached their postwar low in 1948. In 1950 another rapid advance started with the outbreak of the Korean War and the general rise in the price level. Total profits before taxes returned to their 1947-49 average in 1951 and 1952; but during the last 3 years they have been only slightly below those earned in 1950 and about four times those of the years preceding World War II (table 4).

After Taxes

Profits after taxes in 1955 were slightly less than three times those of 1939 and 1940. This is slightly less than the increase in labor costs during the same period. Corporate profits after taxes have not increased as rapidly as profits before taxes during the last 15 years. They rose most rapidly from 1940 to 1946, when they more than tripled. Profits after taxes declined somewhat from the high 1946 level but rose again at the start of the Korean War. During the last few years, they have fallen below their 1947-49 levels but are still more than double those of 1939-40.

Profits after taxes have not risen as rapidly as profits before taxes because of increases in the corporate income tax and the wartime excess profits tax. The taxes paid by food marketing corporations took about 20 percent of total profits in 1939. This proportion increased to almost 60 percent in 1944. Since that year, it has ranged from 38 percent in 1946 to 57 percent in 1952. In recent years, taxes as a proportion of total profits have amounted to slightly more than 50 percent.

Distribution Among Processors, Wholesalers, and Retailers

Functions performed by marketing agencies in processing, wholesaling, and retailing farm-produced food products frequently overlap. For example, many corporations, although classified primarily as processors, are engaged also in the distribution of food products directly to retail stores. Meat packers, bakeries, and dairy companies, for example, frequently perform both processing and wholesaling functions. Likewise, many retail food chains perform wholesaling and warehousing operations. Frequently retail chains also perform processing functions such as operating a bakery or milk plant. Because of this overlapping of functions, estimates of the share of total corporate profits accounted for by each marketing function should be considered as rough approximations only.

Before World War II, food processing corporations accounted for about 70 percent of the profits received by all corporations marketing food.

Corporate retailers and wholesalers 5/ shared the remaining 30 percent about equally. During World War II, the share of food marketing profits going to food processors dropped to 60 percent while the share received by retail food corporations rose to about 25 percent. The proportion received by food wholesalers remained at about 15 percent. In recent years, food processors have received 65 percent, retail food corporations 25 percent, and food wholesalers 10 percent. These percentages are based upon profits (before taxes). Corresponding percentages based on profits (after taxes) are about the same. Corporate firms are a much larger factor in processing than in wholesaling or retailing. In addition, it is likely that total capital investment in processing exceeds that in wholesaling and retailing.

Comparison with Other Components of the Marketing Bill

Labor costs made up 47 percent of the marketing bill for farm food products in 1955, transportation costs 13 percent, corporate profits about 6 percent, and "other costs and noncorporate profits" 34 percent.

Since the mid-1930's, total labor costs have increased in each year. The cost of labor is the largest single element in the marketing bill. Therefore, trends in hourly earnings of labor and output per man-hour are the major factors affecting the trend in total charges for marketing farm products. 6/

Transportation charges have risen in all years since 1943 except 1951 and 1953, and in those 2 years the level equalled that of the previous year.

The residual group, which includes all other costs and noncorporate profits, has also climbed steadily. From 1939 to 1955 this group decreased from its preceding year only twice -- in 1944 and 1950.

Each of these elements in the marketing bill has more than tripled since 1939. Corporate profits before taxes have about quadrupled. The result has been an increase in the total marketing bill for farm food products in every year from 1939 to 1955. As indicated earlier, corporate profits after taxes have not increased as rapidly as profits before taxes owing to increases in Federal tax rates (income and excess profits) on corporations. Total Federal taxes paid by food marketing corporations reached a maximum in 1953. Taxes paid by corporations marketing farm-produced food are currently near their Korean War levels. Although profits before taxes have risen more percentagewise since 1939 than have "marketing costs," taxes have increased at a much greater rate.

5/ Corporate profits from wholesaling farm-produced foods include those of merchant wholesalers, manufacturers' sales branches, agents, brokers, and assemblers. Assemblers include those engaged in assembling farm products at country points. Allowances were made for food exports and imports and nonfood items.

6/ For a detailed account, see "Trends in the Cost of Labor in Marketing Farm Food Products," in the Apr. 1956 issue of this Situation, pp. 19-35.

Factors Contributing to the Rise in Profits

Total profits depend upon the physical quantity of products marketed and the average profit per unit. Since 1939 the quantity of farm-produced food products sold to civilian consumers in this country has increased about 50 percent. Profits (before taxes) per unit of product have fluctuated considerably during the period 7/ (fig. 1, table 5). The greatest rise occurred from 1940 to 1946, when they more than tripled. A rather sharp decline followed. But since 1948 no upward or downward trend has been evident. The level has been from two to three times that in 1939 and 1940. Labor costs per unit of product, on the other hand, have risen in every year since 1940. Advances in recent years, however, have resulted partly from an increase in the number of operations performed per unit of product. Increases in productivity are probably not reflected fully in the comparisons in figure 1 and table 5 because of these new services.

Total profits also are the product of the volume of total dollar sales and of profits per dollar of sales. Dollar sales of food products by corporations in 1955 were about four times those in 1939 and about 40 percent larger than in 1947-49 (fig. 2), but profits per dollar of sales in 1955 were slightly lower than in 1939 and considerably lower than in 1947-49. Advances in prices of food products increased profits per unit although profits per dollar of sales declined.

Many factors have contributed to the increase in profits of corporations marketing food products. Expansion in the volume of food products marketed, rising prices for food products, and a growing consumer demand for marketing services all have had a part.

The increase in the volume of equity capital invested in food marketing corporations is another reason for the growth in their profits. Much of this increase in recent years has resulted from reinvestment of undistributed profits. Profits are in part a payment for the use of capital invested in a business by its owners. The investment of equity capital in recent years is indicated by increases in net worth. In 1952 the net worth of all food and kindred products manufacturing corporations was almost double that of 1939. Since 1952 the net worth of food and kindred products manufacturers has increased about 8 percent. It rose about 2 percent from 1952 to 1953, over 2 percent from 1953 to 1954, and more than 3 percent from 1954 to 1955. 8/

7/ The index of profits per unit of product was constructed by dividing an index of total profits of corporations marketing food by an index of the total volume of food marketed. The latter index relates to the total volume handled by all marketing firms, corporate and noncorporate. A change in the proportion of the total handled by corporations, during the period covered by the index, would introduce some error in the index of unit profits, but it is believed that this proportion has not changed enough to cause significant error.

8/ Percentages were computed from data published by the Internal Revenue Service in "Statistics of Income," Part 2, 1939 and 1952, and in "Quarterly Financial Report for Manufacturing Corporations," 1952 and 1955, published by the Securities and Exchange Commission and Federal Trade Commission.

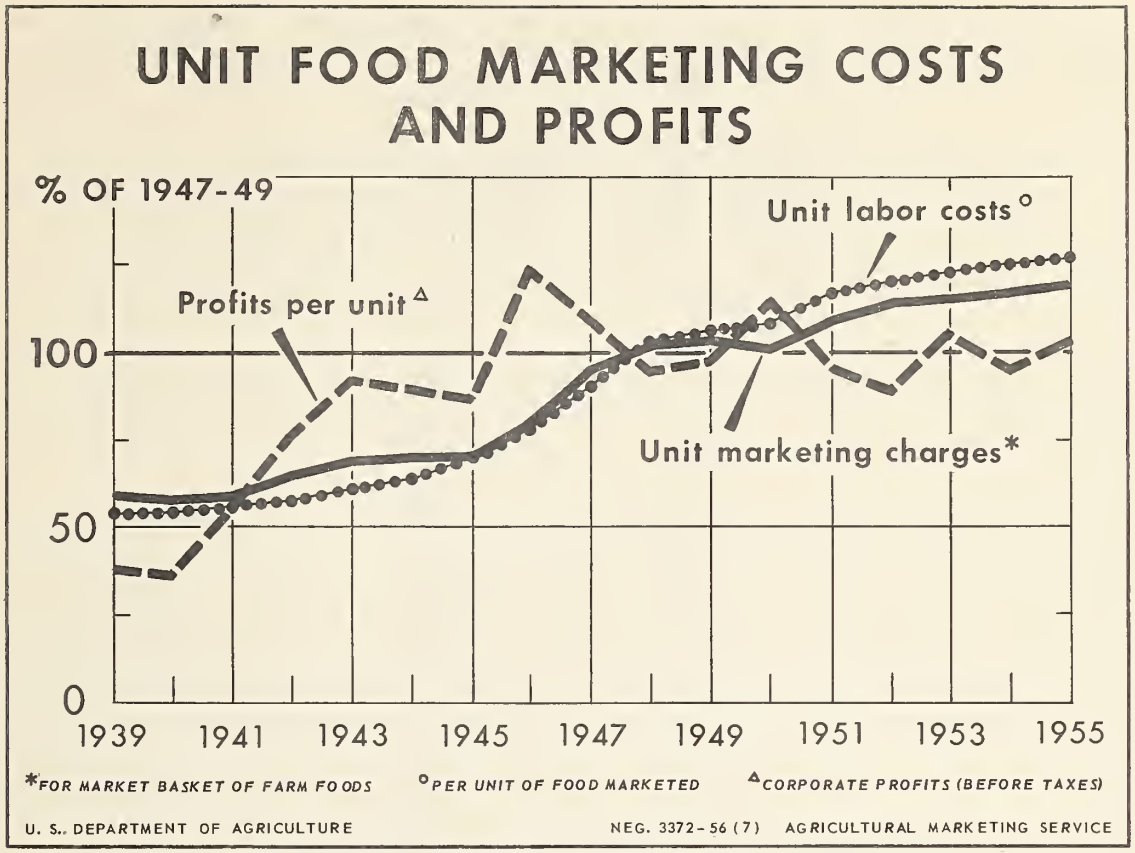

Figure 1

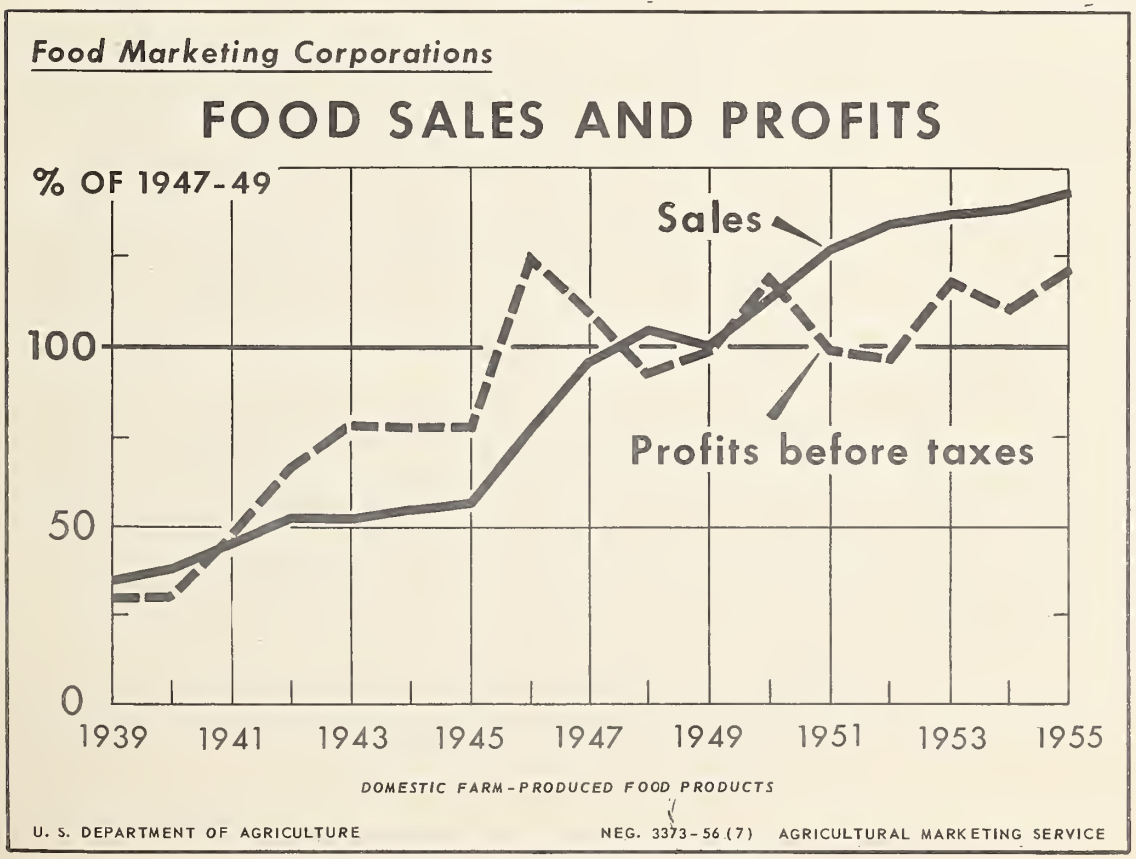

Figure 2

Table 5.- Marketing charges, profits before taxes, and labor costs per unit of product for marketing food products sold to civilian consumers, United States, 1939-55

(Index numbers 1947-49 = 100)

Year	Unit marketing charges 1/	Profit per unit of product 2/ (before taxes)	Unit labor cost 3/
1939	59	38	54
1940	58	36	54
1941	59	55	56
1942	65	76	58
1943	69	92	61
1944	70	89	64
1945	70	86	70
1946	79	124	78
1947	95	108	90
1948	102	94	103
1949	103	97	106
1947-49 average	100	100	100
1950	101	114	108
1951	109	95	117
1952	114	88	120
1953	115	104	123
1954	117	95	125
1955 4/	119	102	126

1/ Calculated from annual average marketing margins between retail cost of a constant market basket of farm food products and payments received by farmers for equivalent farm products; margin has been adjusted for subsidies to marketing firms. The marketing margin is published in this Situation.

2/ Profits per unit of product is the quotient of the indexes of total corporate profits from the marketing of farm foods produced and consumed in the United States and the volume of farm food products marketed to domestic civilian consumers. The index of the volume of farm food products marketed was constructed by weighting the quantities sold to civilian consumers by 1947-49 average retail prices.

3/ Unit labor cost is the quotient of the indexes of total cost of labor and of the volume of food products marketed to domestic civilian consumers. The labor cost to which the first index relates is only for food sold to civilian consumers in this country; also the estimated cost of additional labor that would be required to handle in retail stores food sold in eating places has been substituted for the cost of labor in eating places. This adjustment makes the index comparable with that for marketing charges.

4/ Preliminary.

The amount of capital used in marketing food products has increased per unit of product. Certain facts point to this conclusion. More working capital is required per unit handled because of (1) the rise in wages and in prices of supplies and other goods and services bought by marketing firms and (2) increased inventory costs. Investment in fixed capital per unit of output has increased because costs of plant and equipment have risen and, probably, because capital has been substituted for labor. Capital has been invested to improve plant and equipment in order to obtain more output per man-hour. This has tended to reduce labor cost per unit but to increase capital cost.

The increase in such marketing services as processing and packaging per unit of output in recent years has added to the need for capital to move food from farms to consumers.

The competitive situation also affects profits in some degree. Mergers of some of the larger food marketing firms in recent years have probably contributed to a shift in the competitive structure and to larger unit profits. Vertical and horizontal integration of large corporate firms tends to improve the buying position of firms as well as to bring about processing and shipping economies. Often firms have merged in order to have a complete line of products for their customers or to obtain facilities in new market areas. According to data published by the Federal Trade Commission, 243 firms merged with 100 firms manufacturing food and kindred products during the period 1948-54. 9/

Profit Ratios of Food Marketing Corporations

Profits as a percentage of stockholders' equity of food processing corporations were lower in 1955 than in 1947-49, according to data published by the Federal Trade Commission and the Securities and Exchange Commission (table 6). Profits as a percentage of sales were substantially lower than their 1947-49 rate.

The rate of profits to stockholders' equity for all manufacturing firms in 1947-49 was about the same as that for food processors but has been higher in all years since. The average rate of profits to sales for all manufacturing firms generally has been double that of food processors during the last 9 years.

In the first quarter of 1956 profits (after taxes) as a percentage of stockholders' equity for food processing corporations averaged 8.1 percent compared with 7.3 percent in the first quarter of 1955 and 8.4 percent in the last quarter of 1955. The ratio of profits to sales increased from 1.9 percent in the first quarter of 1955 to 2.2 percent in the first quarter of 1956.

Data on profits of processing corporations published by the FTC-SEC are not reported separately by food groups, nor are data on profits of wholesale and retail corporations available on a continuing basis as they are not published by these Government agencies. But ratios of profits to stockholders' equity and to sales for a group of leading processing, wholesaling, and retailing food firms are published yearly in this Situation. These statistics are compiled from published financial statements of these companies.

9/ For a detailed discussion of mergers of marketing firms, see the Oct. 1955 issue of this Situation, pp. 31-33.

Table 6.- Net profits as a percentage of stockholders' equity and of sales for food and kindred products and all manufacturing industries, average 1947-52, annual 1953-55

Item	Average 1947-49	Average 1950-52	1953	1954	1955
	Percent	Percent	Percent	Percent	Percent
Food and kindred products:					
Profits as a percentage of					
Stockholders' equity:					
Before taxes	23.5	19.2	17.7	16.7	18.0
After taxes	14.0	9.5	8.2	8.1	8.9
Sales:					
Before taxes	6.1	5.0	4.4	4.3	4.6
After taxes	3.6	2.5	2.0	2.1	2.3
All manufacturing industries, except newspapers:					
Profits as a percentage of					
Stockholders' equity:					
Before taxes	23.3	26.2	22.8	18.6	24.0
After taxes	14.4	12.7	10.6	10.0	12.7
Sales:					
Before taxes	10.5	11.2	9.2	8.4	10.3
After taxes	6.5	5.4	4.3	4.5	5.4

Computed from data in the "Quarterly Financial Report from Manufacturing Corporations," 1947-55 issues, published by the Federal Trade Commission and Securities and Exchange Commission.

Profits (after taxes) of leading food processing and distributing companies expressed as a percentage of stockholders' equity generally have been lower in recent years than they were immediately following World War II (table 7). For 51 food processors this ratio declined from a high of 13.6 percent in 1946 to a low of 8.1 percent in 1952. For 5 wholesale food distributors it dropped from a peak of 27.3 percent in 1946 to 5.4 percent in 1952. The ratio for 8 retail food chains fell from 18.8 percent in 1947 to 9.8 percent in 1952. In recent years, however, profits as a percentage of stockholders' equity have increased somewhat for these 64 food marketing firms.

Preliminary data for 1955 show that profits after taxes of these food processing companies, expressed as a percentage of stockholders' equity, increased from 8.8 percent in 1954 to 10.2 percent in 1955. For leading food wholesalers, this ratio averaged 6.3 percent in 1955 compared with 7.5 percent in 1954. Profits of retail food chains expressed as a percentage of stockholders' equity were slightly lower in 1955 than in the previous year.

Expressed as a percentage of sales (after taxes), profits of leading food-marketing firms have generally decreased from peak levels reached in 1946 (table 7). For food processors, this ratio ranged downward from a high of 3.3 percent in 1946 to a low of 1.6 percent in 1952. The wholesale

Table 7.- Net profits (less provision for taxes on income) as percentage of stockholders' equity and as percentage of sales, leading food and tobacco companies, 1935-55

Year	Food processing companies: 8 baking companies	7 grain mill products companies	11 meat packers	5 canning companies	10 dairy products companies	10 miscellaneous food companies 1/	51 companies combined	5 wholesale food distributors	8 retail food chains	5 tobacco companies
	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
	Profits as percentage of stockholders' equity 2/									
Average 1935-39	8.1	10.4	3.6	5.6	7.9	9.8	7.4	---	8.4	13.9
1940 ...	7.9	9.8	5.4	6.6	8.7	9.2	7.7	---	9.7	14.2
1941 ...	7.6	9.5	8.6	10.5	11.1	10.8	9.7	---	9.4	12.3
1942 ...	9.5	8.0	8.1	8.4	11.3	8.7	9.0	---	7.4	11.0
1943 ...	9.3	10.2	7.9	8.6	11.5	9.1	9.2	---	7.8	10.4
1944 ...	8.7	10.3	7.2	9.1	10.1	8.2	8.5	11.2	8.2	9.7
1945 ...	10.0	10.9	5.2	10.2	10.0	8.1	8.2	12.7	8.1	9.2
1946 ...	18.3	13.2	9.9	18.4	17.0	12.6	13.6	27.3	18.1	11.4
1947 ...	15.6	15.7	11.0	13.4	13.2	14.6	13.4	18.8	18.8	12.6
1948 ...	17.6	14.6	5.6	9.6	12.5	13.5	11.3	16.1	16.9	14.4
1949 ...	16.5	13.8	3.9	5.4	14.5	10.5	10.0	12.5	15.4	14.3
1950 ...	15.5	13.4	5.9	15.3	13.3	12.7	11.5	10.0	13.8	13.1
1951 ...	11.7	11.0	5.1	6.8	10.2	9.0	8.5	9.5	10.0	9.9
1952 ...	12.1	11.0	3.2	7.5	9.9	9.0	8.1	5.4	9.8	9.5
1953 ...	12.3	10.7	6.6	6.6	11.0	9.2	9.2	7.1	11.0	10.1
1954 ...	11.3	12.4	2.7	8.0	12.1	9.9	8.8	7.5	10.9	10.5
1955 3/	11.4	12.3	6.5	10.4	12.0	10.0	10.2	6.3	10.8	11.9
	Food processing companies: 7 baking companies	4 grain mill products companies	11 meat packers	4 canning companies	10 dairy products companies	10 miscellaneous food companies 1/	46 companies combined	5 wholesale food distributors	8 retail food chains	5 tobacco companies
	Profits as percentage of sales									
Average 1935-39	7.1	4.2	0.9	3.1	3.1	8.6	3.0	---	1.5	9.1
1940 ...	6.3	4.6	1.4	3.5	3.2	7.9	3.2	---	1.5	8.4
1941 ...	5.3	3.5	1.7	3.9	3.4	7.8	3.2	---	1.2	6.5
1942 ...	4.8	2.6	1.2	3.1	2.9	5.5	2.4	---	.9	5.1
1943 ...	4.0	2.2	1.1	3.5	2.8	5.0	2.2	---	1.0	4.3
1944 ...	3.3	2.3	1.0	3.3	2.4	4.9	2.0	.9	1.0	4.0
1945 ...	3.6	2.6	.9	3.8	2.3	4.0	2.0	1.0	.9	3.8
1946 ...	6.0	2.8	1.7	6.1	3.5	6.0	3.3	2.2	1.7	4.0
1947 ...	4.5	2.9	1.2	5.0	2.6	5.6	2.5	1.8	1.5	4.3
1948 ...	4.9	3.3	.6	3.7	2.5	5.4	2.2	1.8	1.4	5.0
1949 ...	5.0	3.6	.5	2.4	3.3	4.7	2.1	1.5	1.4	5.4
1950 ...	4.9	3.1	.8	5.3	3.2	5.3	2.5	1.2	1.2	5.1
1951 ...	3.5	2.3	.6	2.5	2.2	3.6	1.7	1.1	.9	3.8
1952 ...	3.5	2.5	.4	2.7	2.1	3.6	1.6	.7	.8	3.4
1953 ...	3.5	2.5	.8	2.3	2.3	3.6	1.9	1.0	.9	3.8
1954 ...	3.4	2.9	.3	3.0	2.6	3.8	1.8	1.0	1.0	4.3
1955 3/	3.4	2.9	.8	3.6	2.6	3.9	2.2	.9	1.0	5.0

1/ Includes sugar and corn refining companies, processors of vegetable oils, and companies manufacturing a wide variety of packaged foods.

2/ Ratio of net profits to average of stockholders' equity at the beginning and end of the year. Stockholders' equity is excess of total balance sheet assets over liabilities.

3/ Preliminary.

Compiled from financial statements reported in Moody's Industrials.

food group reported a high of 2.2 percent in 1946 compared with a low of 0.7 percent in 1952. Profits on sales in the retail food chain group ranged from a high of 1.7 percent in 1946 to a low of 0.8 percent in 1952. Ratios of profits to sales have increased somewhat in recent years from their relatively low levels of 1952.

Preliminary data indicate that net profits of the food processing group in 1955 averaged 4.3 cents per dollar of sales before payment of taxes on income and 2.2 cents after payment of these taxes. The corresponding rates for 1954 were 3.8 cents and 1.8 cents. The average rate of profits per dollar of sales for leading wholesale food distributors in 1955 were 1.7 cents before taxes and 0.9 cent after taxes, slightly less than the corresponding rates for the previous year. Profits as a percentage of sales of leading chain retail food store companies in 1955 were the same as in 1954.

According to data published by the First National City Bank of New York, ratios of net income (after taxes) to book net assets of the leading firms processing farm products have tended generally downward from their 1950 levels (table 8). Ratios were slightly higher for meat packers and transportation agencies. Among the food groups reporting decreases in ratios of net income to book net assets were: Bakery products, dairy products, sugar, soft drinks, and retail food chains. However, every food group except dairy products and retail food chains reported higher ratios in 1955 than in 1954.

Ratios of net income (after taxes) to sales for each of these same marketing firms were lower in 1955 than in 1950 except for meat packers which showed no change (table 8). The only increase reported over this 5-year period was for transportation corporations. From 1954 to 1955, increases were reported for all groups except dairy products and retail food chains; these two groups maintained their 1954 rate of income to sales.

When ratios of net income to net assets and to sales for food manufacturers are compared with those for all manufacturing groups, the profits ratios for the food groups are found to be lower in recent years for practically all food groups. The exception is the soft drink group; the ratio of profits to sales for this industry is higher than that for the total manufacturing group in all recent years except 1954.

Food chains report a slightly higher ratio of profits to net assets than that reported by all trade groups for the last 6 years. On the other hand, profits on sales for food chains are less than half that of all trade groups. It is, in fact, lower than that for any food processing group other than meat packers.

The transportation group has a lower rate of profits to net assets than that of either the manufacturing or trade groups and is generally lower than each of the individual food processing groups. Profits on sales (gross receipts) for these transportation agencies, however, have generally been higher than that reported by the manufacturing or trade groups.

Table 8.- Net income of leading corporations processing and distributing agricultural products as a percentage of net assets and of sales, 1950-55

Industrial groups	Corporations 1/	Reported net profits after taxes as percentage of net assets 2/					
		1950	1951	1952	1953	1954	1955
	Number	Percent	Percent	Percent	Percent	Percent	Percent
Baking	19-24	15.9	12.3	12.2	12.0	11.4	11.9
Dairy products	12-16	13.9	11.0	10.4	11.2	12.4	12.2
Meat packing	14-19	6.4	5.4	3.5	6.7	3.3	6.7
Sugar	19-25	10.8	12.1	8.1	4.0	4.8	5.5
Other food products	78-86	15.4	11.8	10.0	11.1	11.5	11.7
Soft drinks	13-19	15.6	12.6	12.0	12.6	12.4	14.1
Chains - food	23-28	17.3	11.7	10.6	12.7	13.6	13.4
Wholesale and miscellaneous	53-60	13.0	12.9	9.2	8.3	7.9	8.5
All manufacturing	1763-1788	17.1	14.4	12.3	12.7	12.3	15.0
All trade	186-197	15.0	11.5	10.1	9.9	9.9	11.1
All transportation	226-253	5.8	5.2	6.0	6.1	4.6	6.1
		Reported net profits after taxes as percentage of sales					
Baking	19-24	5.0	3.5	3.6	3.5	3.3	3.4
Dairy products	12-16	3.0	2.2	2.1	2.2	2.5	2.5
Meat packing	14-19	.8	.6	.4	.7	.4	.8
Sugar	19-25	5.5	6.2	4.4	2.3	2.9	3.2
Other food products	78-86	5.1	3.6	3.1	3.3	3.7	4.0
Soft drinks	13-19	11.2	8.7	7.7	7.8	5.2	8.6
Chains - food	23-28	1.7	1.1	1.0	1.1	1.2	1.2
Wholesale and miscellaneous	53-60	2.9	2.5	2.1	1.8	2.1	1.8
All manufacturing	1763-1788	7.7	6.2	5.4	5.3	5.9	6.7
All trade	186-197	3.8	2.7	2.4	2.4	2.5	2.7
All transportation	226-253	7.7	6.4	7.3	7.6	6.7	8.3

1/ Range in number of corporations in sample, 1950-55.
2/ Book net assets at the beginning of the year are based on the excess of total balance-sheet assets over liabilities.

Compiled from "Monthly Letter," The First National City Bank of New York, Apr. 1952-56 issues.

Methodology

The method of deriving the estimated aggregate profits presented in this article involved two steps: (1) Estimating the total sales of processors, wholesalers, and retailers and (2) multiplying the total annual sales of each group by appropriate ratios of profits (before and after taxes) to sales. Total corporate profits of processors, wholesalers, and retailers estimated for each year by this process were then totaled in order to obtain a series of aggregate profits that could be compared to the total marketing bill for farm food products and to the other marketing costs included in the marketing bill.

Estimated sales of farm food products sold to domestic civilian consumers, for food processing corporations in 1939 and 1947, and for wholesaling and retailing corporations in 1939 and 1948, were based mainly upon census data. Most of these data relate to the value of food shipments by processors and value of food sales by retailers and wholesalers.

The value of shipments made by the following groups of food manufacturers were adjusted to remove the value of nonfarm foods, nonfoods, imported and exported foods, and food for military use: Meat products, dairy products, canning, preserving and freezing, grain mill products, bakery products, sugar, confectionery products, beverages (bottled soft drinks) and miscellaneous food preparations. The adjusted values were added to obtain the total value of shipments of farm foods.

The total value of shipments thus computed include those of both corporate and noncorporate firms. The proportion of food shipments accounted for by corporate firms was estimated and broken out of the total shipments for all firms. For 1939 food sales of processing corporations were compiled from the table "Value of products by all legal forms of organization" published by the Bureau of the Census. A similar distribution was not published in the 1947 census. Corporate food shipments for 1947 were estimated by multiplying the estimate of all farm-produced food shipments by the ratio of corporate "value added" to total "value added" for food and kindred products manufacturers.

Data for the wholesaling group were adjusted in a similar manner. Basic food sales data were compiled from census commodity line food sales by type of wholesale outlet, by kind of business. As these data were published by the Bureau of the Census on a sample basis, each commodity line within the "kind of wholesale business" group was inflated to full coverage for both 1939 and 1948. Sales were adjusted to include only those foods produced and consumed in the United States.

Estimated sales of farm-produced foods sold by food retailing corporations in 1939 and 1948 were compiled from data published in the table "Sales, kind of business by legal form of organization." As sales data in 1948 were broken out only by kind of business and not further by specific commodity line sales, it was necessary to determine the amount of food sales included in total corporate sales in each kind of business handling food. Detailed commodity line data for food sales by kind of business were given in the 1939 Census of Business. (It was assumed that the 1939 relationship of food sales to total sales of retail establishments selling food would also hold for 1948 and, further, that food sales of incorporated establishments had the same relationship to all sales as did the food sales of all establishments.) The percentage of total sales of each kind of business accounted for by food in the 1939 Census of Business was applied to the total sales of each kind of business in 1948 to estimate food sales only. The estimated food sales of each kind of incorporated business were totaled and adjusted downward to eliminate the value of sales accounted for by nonfarm and imported foods. The estimated value of farm foods, in terms of retail-store prices, sold in incorporated eating places was added to the total value of retail food sales of other corporations.

It remained necessary to interpolate sales data for all years between the census years and to extrapolate them to recent years. For processors, interpolations and extrapolations were made by applying to the estimates for 1939 and 1947 the yearly trend in gross sales for food and kindred products published yearly by the Internal Revenue Service in "Statistics of Income," Part 2. The most recent data published by the Internal Revenue Service were for 1952. The trend in the value of food shipments by processors was estimated for later years from data regarding manufacturers' sales of food and beverages published by the Department of Commerce in the "Survey of Current Business" and "Business Statistics."

For wholesalers, the trend in food sales also was projected from the census base years by Internal Revenue data. Wholesale food sales for recent years were estimated from the trend in annual food sales of merchant wholesalers.

Food sales of corporate retailers in noncensus years were estimated by applying to sales in the census years the trend in the Internal Revenue Service data for gross sales of food stores and eating and drinking places. Sales for recent years were estimated from retail food store sales published by the Department of Commerce in "Business Statistics" and the "Survey of Current Business."

Ratios of profits to sales were computed from aggregate data for food marketing corporations published in "Statistics of Income," Part 2. As data for 1952 are the most recent available, ratios of profits to sales for recent years published annually in "The Marketing and Transportation Situation" (table 7) were used after adjusting them to levels comparable with the IRS data.